

# **Vallejo City Unified School District (VCUSD) Financial Practices “Playing the Blame Game” 2004 – 2005 Grand Jury Report**

## **I. Reason For Investigation**

The Grand Jury elected to investigate the VCUSD financial oversight process at the request of VCUSD Board members. The Grand Jury generally does not release the identity of complainants, however in this case complainants notified local newspapers that they had filed complaints with the Grand Jury.

## **II. Procedures**

The Grand Jury:

- Interviewed former and present VCUSD administrators and board members
- Interviewed former and current Solano County Office of Education (SCOE) administrators
- Reviewed the State Superintendent of Public Instruction’s Report on SCOE with regard to VCUSD
- Reviewed correspondence and documents from SCOE, VCUSD, Vallejo Times-Herald and School Services of California
- Examined the report of the AB 139 VCUSD Fraud Audit, dated March 29, 2005 and the Fiscal Crisis and Management Assistance Team (FCMAT) report on VCUSD dated November 2004

Several official letters from the SCOE to VCUSD were explored in Grand Jury testimony and are important to understanding the sequence of events. They are reproduced as appendices to this report.

Appendix A	Letter from SCOE Deputy Superintendent to VCUSD Board President and Superintendent, dated June 30, 2003
Appendix B	Letter from SCOE Superintendent to VCUSD Board President and Superintendent, dated August 21, 2003
Appendix C	Letter from SCOE Superintendent to VCUSD Board President and Superintendent, dated September 15, 2003
Appendix D	Letter from SCOE Superintendent to VCUSD Board President and Superintendent, dated October 8, 2003

## **III. Background**

Based on documents reviewed and witnesses interviewed by the Grand Jury, the VCUSD has had budget problems and an ongoing decline in enrollment and average daily attendance (ADA) for the past ten years. VCUSD appears to have increased its ADA projections (on which the state allocates school tax revenues) to hide shortfalls in its budgets. Documents reviewed and statements from witnesses also suggest that some of the board members knew of the latest budget problems, but may not have shared the information with the full board, and certainly did not explore the issues in open session in the Fall of 2003.

During the 2001-2002 and 2002-2003 budget years, the VCUSD was operating under a Fiscal Recovery Plan, imposed after the SCOE disapproved the 2001-2002 VCUSD budget. Monthly monitoring of VCUSD's financial condition by SCOE was required during the 2001-2002 and 2002-2003 fiscal years. Official letters from the SCOE Superintendent during this period generally urged the district to "exercise a high level of caution in implementing its spending priorities" while "commend[ing] the District for adherence to the approved Fiscal Recovery Plan" (Appendix A).

At the June 2003 board meeting, the Chief Financial Officer of VCUSD made a presentation to the board, indicating that the 2003-2004 budget for the district assumed 200 more students than the previous year. However, buried in the budget package were 1,757 new students that the district had used to calculate its ADA revenue. The district actually had a decline of 500 students for that year, which is 2,257 fewer students than were projected in the budget, representing an overestimate in state tax revenues of approximately \$10.5 million.

In testimony before the Grand Jury, one witness denied that a budget was submitted to SCOE which included 1,757 new students. Witnesses stated that the Chief Financial Officer was told to remove the 1,757 students from the budget calculation. However, according to these witnesses the Chief Financial Officer did not comply and submitted the inflated budget to the SCOE for approval.

In July 2003, the SCOE Deputy Superintendent reported to the State Office of Education that the VCUSD appeared solvent. In August 2003, the SCOE changed administration. Under the direction of the current Superintendent, there was a heightened degree of oversight and intervention in the VCUSD budget process by both SCOE's staff and consultants hired by SCOE. It should be noted that former SCOE top administrators were aware of the VCUSD's financial insolvency. SCOE enabled the VCUSD problem by establishing a pattern of accepting VCUSD budgets without supporting documentation. A former SCOE administrator stated that as a friend of the VCUSD Chief Financial Officer he accepted him at his word and "that was a mistake."

The current SCOE staff members who testified before the Grand Jury stated that they had more concerns about the VCUSD budget than the previous SCOE administration. SCOE found many areas in the VCUSD budget where deficiencies existed and told the VCUSD administration and board president in a letter dated August 21, 2003 (Appendix B) that SCOE was "unable to approve" the 2003-2004 budget. SCOE discussed the deficits in the budget with VCUSD administration in a meeting on August 26, 2003. Despite the written warning that SCOE had given to the VCUSD and the board that the existing budget would be rejected, the VCUSD board held a regular meeting on September 3, 2003, during which no public statement about the budget problems was made.

An SCOE administrator stated that the first red flag she noticed in the VCUSD budget was the inflated enrollment projection when there had been a history of declining enrollment. SCOE administrators stated that an emergency meeting was called on September 11, 2003, with the VCUSD Superintendent and the Deputy Superintendent. The budget issues were again discussed and the VCUSD administrator stated that SCOE concerns would be brought to the attention of the Chief Financial Officer who had prepared the budget. VCUSD Board members stated that they were never made aware of the September 11, 2003 meeting. A letter was sent to VCUSD and to the Board President on September 15, 2003, which stated that the VCUSD 2003-2004 budget was formally "disapproved" (Appendix C). Despite the August 21, 2003 and September 15, 2003 letters to the district and board, there was no public discussion about the budget at the September 17, 2003 board meeting.

The VCUSD Chief Financial Officer stated publicly in the October 1, 2003 board meeting that the VCUSD budget had been revised and that the district was in the black. Board members stated they were excited about the news and praised the Chief Financial Officer for a job well done. SCOE administrators stated they were surprised and disappointed to read in the Vallejo Times-Herald the next day that VCUSD was in the black when they had just met with VCUSD administrators and made it clear that the VCUSD budget was in a deficit position. A letter was sent to VCUSD and each member of the VCUSD board on October 8, 2003, stating the revised budget that was VCUSD board approved on October 1, 2003 was rejected and that School Services of California (SSC) was being appointed to serve as fiscal advisor to the district (Appendix D).

The October 8<sup>th</sup> letter stated that the SCOE could not approve the budget because it “does not accurately reflect the current and projected financial status of the district”. This letter was addressed to the VCUSD Superintendent, the Board President and copies were sent to the district for each member of the Board. Board members stated that the October 8, 2003 letter was concealed from the board by the Superintendent and documents reviewed indicated that there was no public discussion about the budget rejection at the October 15, 2003 board meeting.

SCOE stated that they also sent a copy of the October 8, 2003 letter to SSC. Included in the SCOE letter to the oversight agency was an analysis of the VCUSD 2003-2004 budget as well as a copy of the Times-Herald’s article where the VCUSD Chief Financial Officer claimed that the VCUSD was on firm financial footing. SCOE staff stated that after they sent the copy of the October 8, 2003 letter, SSC wrote a letter to the VCUSD staff on October 17, 2003 requesting a meeting on October 22, 2003 to discuss the budget so a report on the budget problems could be given to the VCUSD board at its November 19, 2003 meeting. VCUSD Board members stated publicly and to the Grand Jury that they did not know that SCOE had disapproved the budget that the board had approved in early October 2003.

According to a Times-Herald article, the 2003 Board President declined to comment on the October 17, 2003 letter, but he did say that he did not receive the October 8, 2003 letter. According to documents reviewed by the Grand Jury relating to board meetings in October and November 2003, no public statements were made about the budget rejection and that SSC had been appointed as fiscal advisor to the VCUSD. On November 22, 2003, in a closed door session, the district staff told the board that the budget was in a deficit position. On December 1, 2003 School Services of California wrote a letter to the VCUSD Chief Financial Officer stating that VCUSD was claiming \$367,317 more from the state in ADA funds than the district was entitled to, based on actual enrollment figures. It also stated that there was approximately \$3,000,000 in five funds from the previous year’s budget that could not be accounted for.

On December 3, 2003, the VCUSD Superintendent forewarned the VCUSD board and public about the SSC’s report. Documents revealed that on December 17, 2003, SSC released its report on November and December revisions of the district budget without having some of the most critical backup data necessary to make a full evaluation. School Services stated that the VCUSD’s special education fund revenue was overstated by approximately \$3 million. Another budget problem involved teachers’ salaries. It was reported that the VCUSD had under-budgeted teachers’ pay by \$2.5 million.

A board member stated that they had no knowledge of the October 8, 2003 SCOE letter until the December 17, 2003 board meeting. It was stated that after learning of the October 8, 2003 letter, the board made some inquiries and determined that the Superintendent had told a staff member to hold up the October 8, 2003 letter until further instructions. During the Grand Jury interview, it was stated that there was “enough blame to go around . . . The board trusted staff, and staff let us down. We trusted the

Superintendent and the Chief Financial Officer. We trusted their word and their documents supporting what they were going to do.”

During Grand Jury interviews, it was asked: “Why did it take as long as it did for the board to speak publicly about the budget problems?” The reply was that “2003 was an election year for two board members and a former board member was also running [against them] . . . To keep things in the proper perspective, no one wants bad news to get out, especially the board members who were up for re-election.” So when it was reported at the board meeting on October 1, 2003 that the budget was in the black with a three percent reserve, that information was put out for the public consumption. The Grand Jury notes that soon after VCUSD reported that the district was in the black, the two incumbent board members easily won re-election.

During the interviews of the VCUSD staff, it was stated that the VCUSD has not had a balanced budget over the last three administrations. A number of witnesses stated that everyone was at fault: the Superintendent, the Board, SCOE and VCUSD staff. A former VCUSD administrator stated that one of the many problems with the VCUSD was that the administrators had to run “a Cadillac district on a Ford Pinto budget.” It was stated that the Chief Financial Officer was trusted too much and that is how the district got into trouble. It was also stated that the October 8, 2003 letter from SCOE was not given to the board because it was a normal practice to hold the letter until the Superintendent could frame a response to SCOE. Witnesses stated that the Board President knew and had discussed this letter with the administration. It was also stated that it was election time for two incumbent board members and “politics does play a part in decision making.”

Another VCUSD administrator stated that he didn’t prepare the budget, but remembered reviewing a preliminary budget in 2003, and telling the Chief Financial Officer that the numbers were fine. After returning from a two-week vacation, he learned that the Chief Financial Officer had changed the ADA projections. “When I left [for vacation] we had built a budget based on X number of kids and when I came back... the budget had been built on X plus a bunch of children that I knew weren’t going to be at school. The X plus number was approximately 1,600 or 1,700 kids.” He further stated that he informed another administrator about the over-projection problem and was told to tell the Chief Financial Officer to fix it.

A witness told the Grand Jury that the budget that was passed by the board in June 2003 and sent to SCOE for their approval was “just rejected.” He noted that, “This process happens all of the time. Frequently, school district budgets are rejected the first time by county offices of education. And they say that ‘we need you to fix A, B, C and D’. And for the VCUSD this was usual procedure. [SCOE] did it in 01-02. They did it in 02-03. They did it in 03-04. So anybody looking at past history, when you get to 03-04, would say ‘there is nothing new here’.”

However, the Grand Jury notes that there was something new, and it was a change in administration at SCOE. The new administration took a harder look at VCUSD’s budget than the previous administration.

Administrators stated that the budget problems were enhanced by VCUSD “leveraging money against leveraged money.” One witness said: “It is kind of like running up your credit card bill and then taking another credit card to pay off the credit card, and maybe even taking a third credit card to pay off the other two. That’s what happened and that stack of cards fell down in the end”. VCUSD budget problems did not start in 03-04, they started in March of 1994.

Some administrators stated that the County Office of Education, has some responsibility because for years they allowed the VCUSD to run without a 3% reserve. State law requires that school districts of VCUSD's size have a 3% reserve for economic uncertainties, and the 3% must be calculated against general fund expenditures. One administrator stated that one of the major faults of the VCUSD administration is that absolute trust was put into the Chief Financial Officer. It was also stated that you have to watch the budget numbers. No superintendent in California ever gets fired for instructional issues. They all get fired for budgets. The witness was convinced that the Chief Financial Officer believed in the beginning that everything was OK. But, based on his performance, the witness questioned his competence.

The former VCUSD Superintendent was hired in January 2001, and was the Superintendent until March 2004. Upon her arrival, she encountered declining enrollment and past ADA projection problems as well as past budget problems that the district had had for over 10 years. The Chief Financial Officer was responsible for the budget and she was responsible for reviewing the budget before it was presented to the board. In testimony to the Grand Jury, it was stated that the district received a letter from SCOE in August 2003, stating that VCUSD had done a good job with the budget and to "keep up the good work." It was also stated that in September 2003, the district received a letter from the new SCOE Administration stating that they had problems with the budget and the budget would be rejected. From testimony received it was learned that it was past practice for the SCOE administration to allow the VCUSD a chance to examine the budget rejection letter and make a written response to SCOE.

During testimony it was stated that when the September 2003 letter from SCOE was received, the Board President was present in the superintendent's office and the letter was discussed at that time. The budget that SCOE rejected in August 2003 was the same budget that had been approved by the board in June 2003. It was also learned that the Chief Financial Officer told the board that this budget was in good shape based on the enrollment projections they had made. Originally there was a projection of 200 additional students; this budget was revised and 1,757 additional students were added to the budget without the knowledge of the superintendent. It was stated that VCUSD received a letter from SCOE that the district was doing a good job. VCUSD then received a letter in September 2003 from the new SCOE administration stating that they had real concerns about this budget. VCUSD administrators confirmed the September 2003 meeting with the SCOE staff to address SCOE concerns with the budget. But before the district could make a response, SCOE wrote another letter stating that they had concerns about the ADA and special education. It was stated that the problems with the budget were never discussed in open forum at board meetings but always discussed in closed-door sessions.

One administrator was asked why staff reported to the board in an open forum on October 1, 2003, that the budget was in the black, when SCOE had just disapproved the budget. That administrator stated this was a difficult question to answer. However, that administrator stated that when the Chief Financial Officer was asked "Are we going to be in the black?" he replied that they would. And so the budget went forward. It was also stated that the budget was discussed in depth and the administrator was assured by the Chief Financial Officer that based on his calculations, the budget was in the black. The witness stated that the administration, including the Chief Financial Officer, the Board and the SCOE, could have done a better job. It was also stated that VCUSD should have communicated better with the public and the Board should reevaluate its closed door policy on budgetary matters.

The Chief Financial Officer joined the VCUSD in 2001 and resigned in January, 2004. He reported to the Deputy Superintendent and the Superintendent and was responsible for the budget and staffing. He inherited a budget system that routinely calculated the revenues based on 500 additional students every year. VCUSD has not had a balanced budget since 1994 without having to make cuts and

do layoffs. He stated that the ADA was miscalculated at times due to having the wrong software. He stated that the people in his office did not work well together and were not properly trained. He stated that the 200 student increase represented in the June 2003 budget was an error and the 1700+ students projected in the budget package was an error by his staff.

The Chief Financial Officer stated he did not remember when the Board was officially notified that the budget had been rejected by SCOE. He did state that the board members always got a Friday letter keeping them up to date on district business. He stated that he believed that two members of the board were told in July or August 2003, that the budget was rejected and the full board was told in September. In the fall of 2003, VCUSD hired 40 additional teachers based on inflated enrollment projections by the Chief Financial Officer. It should be noted that the Chief Financial Officer was evasive in many of his answers, and replied to many of the Grand Jury's questions by saying, "I don't remember."

The State Appointed Administrator of the VCUSD currently fills the role of both Superintendent and the VCUSD Board. He stated that it is his goal to solve the district's financial problems, address student achievement gaps and improve the climate for students. He stated he has a passion for accuracy in both data and students' performance in the district. He stated that at the time he became the VCUSD administrator, the 04-05 budget had a \$23,000,000 deficit. At the time of the Grand Jury interview, the deficit had been cut by about \$8,000,000. He said when he arrived, the VCUSD was devoid of leadership. "There were 10 administrator vacancies, along with lots of inexperienced school level administrators." He stated that the January 2004 enrollment data was not accurate and he has projected a continued decline in enrollment. "Per capita, the VCUSD school bankruptcy is the worst in California history," he stated. "As long as it took the VCUSD to get into its financial mess, it will take an equal amount of time to get out of it."

#### **IV. Findings And Recommendations**

**Finding # 1** – The Vallejo City Unified School District Board failed in its responsibilities as the governing board by not asking the proper questions that would give them enough credible information to make competent budget decisions.

**Recommendation # 1** – Future board members should be trained in the budget process and be assertive in requiring staff to provide supporting documents that will assist them in their decision making.

**Finding # 2** – The VCUSD Superintendent failed in her responsibilities to the district and to the board by not checking the numbers in the budget and by not keeping the full board informed. She also failed the community by not insisting that the budget information be made public.

**Recommendation # 2** – The VCUSD Superintendent should always check the numbers and ask for supporting documents and hold the Chief Financial Officer accountable for information submitted in the budget. The Superintendent should keep the public informed and encourage the board to do the same.

**Finding # 3** – The VCUSD Chief Financial Officer was careless with his budget calculations. He appeared to pull numbers out of a hat to do his budget projections. He also blames everyone else, including his staff, for the budget problems. He was the one solely accountable for preparing the budget that was found to be incorrect due to his inflated ADA numbers and other inaccuracies.

**Recommendation # 3** – The State Appointed Administrator and future boards should hire Chief Financial Officers who are competent, creditable and have a passion for accuracy.

**Finding # 4** – The VCUSD School Board did not keep the public informed of the district’s budgetary problems. Information developed by the Grand Jury supports a finding that at least some of the board members had knowledge of the budget problems before the full board became aware of these problems. The board kept the budget information from the public by discussing all budget problems behind closed doors. It appears that the reelection campaigns of two board members may have had an impact on the board’s decision in keeping the budget problem from the public.

**Recommendation # 4** – The VCUSD should not have a closed-door budget policy. Future boards should establish a formal budget process that includes public input and should communicate more openly with the public about the business of the school district.

**Finding #5a** SCOE has a history, going back at least ten years, of lax oversight of VCUSD finances. It was their responsibility to insure that the budget passed by the VCUSD board was balanced, with a 3% reserve.

**Finding #5b** As pointed out by the State Superintendent of Public Instruction, the SCOE Superintendent did not make a required public presentation to the VCUSD board in September 2003 pointing out the reasons that the budget was disapproved by SCOE.

**Recommendation #5.** The SCOE Superintendent should communicate directly with School Boards and present financial findings at public board meetings whenever there is a negative or qualified certification of a school district budget or when a budget is disapproved.

## **V. Comments**

The position of School Board Trustee for a School District is one of major public trust. Most members of the VCUSD board have been in office for the majority of the past 10 years as the fiscal debacle unfolded.

## **VI. Affected Agencies**

- State Administrator for Vallejo City Unified School District
- Vallejo City Unified School District Board
- Solano County Office of Education
- California Department of Education [Courtesy Copy]